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SUBJECT: SERBIA: MARKETS APPLAUD ELECTION RESULTS

REF: BELGRADE 460

Summary

11. The Belgrade Stock Exchange reacted to the surprisingly wide Democratic Party coalition electoral margin over the second-ranked Radicals in the May 11 parliamentary elections with a record jump of 12.93% in primary shares index. Brokers claim they "can not respond to such a huge number of purchase orders." The dinar finally stopped its pre-election week slide of almost 4% and according to current, mid-day, trading results has strengthened against the Euro by 1.8%. The market judged the election results as clearly very positive, opening a brighter future for Serbian economy. End Summary.

Indexes 13% Up, Brokers Flooded with Orders

12. On May 12, the day after the pro-European coalition gathered around the Democratic Party (DS) received a shot in the arm at the polls over the Radical Party (SRS), though still not enough to form a government without some form of compromise coalition, financial markets jumped. Despite the remaining uncertainties about what parties will make up a governing coalition, investors at the Belgrade Stock Exchange showed strong optimism and great confidence as demand skyrocketed and pushed the primary shares index Belex 15 to an unprecedented one day jump of 12.93%. The Chair of the Board of broker M&V Investments Dragijana Radonjic-Petrovic told econoff that brokers had a hard time responding to the deluge of orders. She added that this first spike would not last long, but she hoped the rising trend would continue after a year-long downward trend. The markets anticipated the election outcome better than all of the pollsters, since the recovery started on May 8 in the wake of the Fiat deal (reftel) when the Belex 15 moved up 2.33% and continued on May 9 to move up 4.44%.

Exchange Rate Slide Turns Around

14. Growing confidence and positive investor expectations were also reflected in the dinar exchange rate. During the week before the elections the dinar fell, but bank contacts told econ staff that the dinar's fall turned around following the May 11 elections. Following last week's depreciation of the dinar against the euro of almost 4%, one euro was trading for 83.87 dinars. According to Aleksandra Maksimovic, Corporate Sales Department Head at Raiffeisen Bank, the dinar was getting stronger in inter-banking trade and most likely the exchange rate on May 13 would be 82.4 dinars to the euro, a nearly 2% appreciation.

Comment

15. On the first post-election day investors in Serbian financial markets showed optimism and strong belief that the Serbian elections point to an economically profitable road. Many brokers believe that the still possible scenario of parties not committed to greater European integration forming a government was factored into shares prices long ago with the slide of the Belex 15 since the announcement of elections. Thus, the surprising margin for European-oriented parties led to a correction in share values. Portfolio investors, most sensitive to risks, sent a message today that the elections signal a clear opportunity for Serbia to speed its path to prosperity and Europe. End Comment.

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